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EASY MONEY AND THE MORTGAGE LENDER

AN important anniversary for everyone in the mortgage business went by virtually unnoticed earlier this month. It was only a little over a year ago that the monetary authorities in Washington, frightened by plummeting Government bond prices, threw the switches on President Eisenhower's tight money policy. That decision - and others of a similar nature that have followed since June 1953 - has led directly to what is rapidly becoming a new seller's market in mortgages.

Money today is cheap, cheaper and more plentiful than at any time since the years immediately following World War II, and borrowers are having a field day. Abundant credit can be found to finance such things as charge accounts and tours of Europe. Triple-A utility companies, which had to pay nearly 3.5% for long-term funds last year, find eager buyers today at just over 3%. The biggest debtor of all, the U. S. Treasury, has come into the biggest windfall. Twelve months ago it was selling 1-year obligations to yield 2-5/8% and 91-day paper at 2-3/8%. Recently it refunded such securities with others yielding 1-1/8% and 3/4%, respectively.

The money managers, of course, haven't been entirely responsible for the fall in interest rates. Other things have helped. For example, businessmen last summer began working down their inventories; at around the same time consumers decided to cut back on purchases of cars and home appliances. Both factors have freed a considerable amount of bank credit. Moreover, the excess profits tax, which made it profitable for some corporations to borrow in order to increase their capital base and reduce their tax liability, expired on January 1. Hence industry has begun to pay off EPT-inspired loans, which, on some reliable estimates, ran to well over a billion dollars. Finally, the country's liquid savings, which rose to a postwar high last year, have continued at record levels since. All these forces have combined with the easy credit policies adopted by Washington to produce the drastic change in the money market.

What this change has meant to the home finance industry was summed up recently by Norman Strunk, executive vice-president of the U. S. Savings & Loan League, in the following brief phrase: "Rising competition for home mortgage loans." Investors, after all, whether institutions or private individuals, are constantly weighing the merits of one kind of holding against another. Last year, in the first half at any rate, mortgages were weighed and found wanting (at anything less than substantial discounts). This year, on the other hand, the yield

scales have tipped decisively in their favor. The result is likely to be one of the biggest, if not indeed the biggest, mortgage lending year in history.

Actually, in spite of all the uproar over the shortage of mortgage funds a year ago, 1953 set a new high in home loan financing. According to Walter W. McAllister, chairman of the Home Loan Bank Board, recorded mortgages of $20,000 and less in the U. S. last year totaled a nice round $20 billion, 10% above the 1952 mark and an all-time peak. Outstanding home mortgage debt on December 31, 1953, also rose to a record level of $66 billion, up $7.2 billion from the previous year.

Since January 1, moreover, the record pace of mortgage lending hasn't slowed a bit. In January-February, nonfarm mortgage recordings of $20,000 or less amounted to approximately $2.8 billion, a shade ahead of the like 1953 period. In February alone, the year-to-year rise was a substantial 2.4%. Mr. McAllister in mid-May forecast that 1954 "will be another period of high lending volume," although he went on to say that mortgage debt probably would increase at a more moderate rate than last year's. Based on the evidence that has come to light in recent weeks, however, the appraisal of the HLBB head now seems conservative. Mortgage lending could easily break new ground in 1954.

The facts and figures currently at hand indicate a truly astonishing upsurge in homebuilding and home finance. Starts of privately owned housing in April numbered 109,100, the highest figure for any month in more than $3\frac{1}{2}$ years. On a seasonally adjusted annual basis, this works out to 1,159,000 dwelling units. In the first 4 months of the year private housing starts came to 341,400, or roughly the same as last year.

At the same time, there has been a marked increase in applications for Government insured and guaranteed mortgages. FHA is a case in point. After lagging consistently behind the comparable year-ago figure since mid-1953, FHA insurance applications lately have been running well ahead. This trend first began to show up, ironically, in April, when the "scandals" in the agency's Title I and Section 608 programs were first made public. In May the upswing accelerated. According to the FHA office in Spokane, for example, builders in eastern Washington and northern Idaho filed applications for loans on 452 proposed homes in the month. That compared with 107 applications filed in May 1953. True, of the total number some 300 units will be defense housing, built to accommodate the families of workers at a new aircraft plant. But even when this fact is taken into account, the figures suggest that a sizable upturn in FHA insurance activity is in progress.

Far more striking has been the spurt in the VA program since last winter. In 1953 VA appraisal requests covering both new and existing houses averaged approximately 35,000-40,000 per month. Applications for home loan guaranties ran to roughly 26,000-27,000 monthly. Starting in February, however, the VA's business began to boom. In that month total appraisal requests rose to 56,000. In May they soared to nearly 90,000, a gain of 98% over last year's figure, and the end is not in sight. The surge in appraisal activity, incidentally, has begun to show up in the number of loan applications. These rose from 21,410 in January to 41,916 last month.

As a result, VA says it's swamped. The agency has asked veterans, builders and lenders to keep telephone and personal inquiries to a minimum. Many offices have limited such inquiries to certain specified hours. VA also has authorized overtime at many regional offices; it has taken on additional technical personnel and lengthened the rosters of fee appraisers and inspectors. It has even devised shortcuts for processing appraisal requests and loan applications. Under a recent ruling of Loan Guaranty Director T. B. King, local offices may now appoint compliance inspectors after making a preliminary inspection of a building site, thereby permitting construction to begin weeks before a complete analysis of a project or appraisal finding has been made.

Sparking the upturn in VA activity, of course, has been the steady relaxation of down payment requirements and the creeping extension of mortgage maturities acquiesced in by lenders in many parts of the country. In New Jersey, for example, until a few months ago no-down-payment financing was available only on houses costing less than $12,000, according to one of the region's leading mortgage bankers. Even then the builders had to absorb a heavy discount on the resulting mortgage paper. In the present market, however, the discount is tending to vanish and such financing is becoming available for houses costing as much as $15,000-$16,000. Similarly, the upper limit on homes that can be sold on a 5% down payment also has advanced to $18,000-$19,000. In some cases qualified borrowers can buy a $20,000 dwelling with a 5% down payment.

No-equity, 30-year loans aren't available everywhere, of course. Even in the East, where the supply of mortgage money traditionally exceeds the demand, there are some institutions which refuse to have anything to do with them. Their lending officers simply feel that such loans are basically unsound. But this kind of financing now can be found extensively in California, Pennsylvania, Texas, and Michigan, as well as in most of the Atlantic Coast States. Mortgage men everywhere agree that it's likely to grow more rather than less widespread in coming months. (The abundance of VA mortgage money, incidentally, in no wise deterred the Senate from restoking the agency's direct loan program. The upper chamber has voted to extend the program for another year, and has granted it an appropriation of $50 million per quarter, twice the amount approved by the House. The difference will have to be ironed out in committee.)

Hand-in-hand with the easing of terms on new mortgages, described above, has gone a firming up of the market for existing liens. In his New York office the other day, an official of an insurance company which does an annual volume of nearly $100 million described the market in the following terms. For VA paper, carrying a 5-10% down payment and a 20- to 25-year maturity, the quotation is around par. Good FHA paper is also selling at approximately 100. These bids, incidentally, represent a rise of one to two points since April. This official feels that the uptrend has been accelerated by the eagerness of some lenders to put out money at current rates, in fear that rates may decline still further.

That, of course, is the $64 question in the mortgage market. As is usually true in such matters, a good case can be made for both sides. On the one hand, signs of at least a temporary halt to the precipitous slide in bond yields have appeared

lately. Thus in recent weeks Government bond prices have leveled off and bids on municipals have been lowered, in some instances rather sharply. At least one big municipal borrower recently rejected most of the bids for its bonds as too low. At the same time, business has begun to perk up, as evidenced by a rise in the weekly steel rate and a decline in the number of jobless. While demand for commercial loans has so far failed to revive, consumers in April for the first time this year borrowed more than they repaid. All this does at least suggest the possibility that some of the funds now pouring into home finance might be diverted into other forms of investment.

On the other hand, it is also possible that even if the bond markets should stabilize at or near current levels, mortgage prices still would have some distance to go. One banker feels that the spread between the two kinds of investment is now quite attractive on a historical basis, and he wouldn't be surprised to see a premium market for mortgages develop in coming months. If that should occur, he feels that the interest rate on both FHA and VA mortgages might well be reduced from $4\frac{1}{2}\%$ to 4-1/4%. For one thing, this would help speed the liquidation of Fanny May's portfolio, which has been shrinking at the rate of $60 million a month lately. Again, this is an election year, and such a move always looks good to the politicians (just as an increase in interest charges is shunned like the plague). In this connection, it's worth noting that FHA lowered the interest paid on its debentures by one-quarter of one percent toward the end of May.

Meantime, the Federal Reserve is still pumping money into the economy. The Fed resumed its aggressive buying of short-term paper last month, and in recent weeks such buying has aggregated more than $300 million. In the single week ended June 9, Washington revealed last Friday, the Federal Reserve acquired $175 million worth of Government paper, one of the most massive credit injections of the year.

Thus the pot boils merrily on. Tight money has given way to easy money and the mortgage business has never been better. Whether all this is good for either lender, builder or the economy as a whole remains to be seen. To date the statistics on delinquencies and foreclosures continue relatively favorable. In 1953, according to the Home Loan Bank Board, foreclosures numbered 21,473, an estimated 18% over 1952 but still well below the prewar annual average. Foreclosures on VA direct loans, which are generally of the no-down-payment variety, have numbered barely 30 since the program's inception, T. B. King told a Senate group recently. Only last month the Mortgage Bankers Association revealed that mortgage loan delinquencies as of March 31 were still "phenomenally low," even lower than last fall.

Considering that the U. S. has experienced a 9-month, 10% setback in business activity, during which unemployment rose by more than 2 million, that's not a bad showing. But it's much too soon to be complacent. W. A. Lyon, New York State Superintendent of Banks, aptly underscored this point last week at a savings and loan convention in Quebec. Revealing an unexpected flair for poetry, he recited this little couplet:

> "The coming years will tell
> Whether those who lent much - lent well."

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